

Wisconsin Department of Public Instruction, Financial Services Team

WISCONSIN PUBLIC SCHOOL DISTRICT AUDIT MANUAL

Statement of Auditing Standard (SAS) No. 99 Consideration of Fraud in a Financial Statement Audit

The implementation of SAS No. 99 requires the auditor to not only specifically identify and assess the risks of fraud that may result in material misstatement of financial statements due to fraud, but to respond to those risks while gathering audit evidence.

The AICPA Audit Guide Government Auditing Standard and Circular A-133 require the auditor also assess the risk of material noncompliance with a major program's compliance requirements due to fraud in a single audit.

Government Auditing Standards, 2003 Revision, extends the auditors responsibility to detecting material misstatements resulting from violations of contracts or grant agreements. Auditors should perform procedures to determine whether transactions or situations could be indicative of abuse. Abuse is distinct from fraud, in that no law or regulation has been violated. In audits performed under Government Auditing Standard, auditors are required to report fraud, illegal acts, significant violations of contract and grant agreements, and significant abuse to the audit committee or board of directors.

SAS 99 outlines the following fraud risk assessment process:

- Hold a discussion among engagement team members regarding the susceptibility of the district's financial statements and major programs to fraud.
- Gather information
 - Inquiries of management and personnel about the risks of fraud and how they have been addressed
 - Preliminary analytical procedures
 - Fraud risk factors
- Identify risks of material misstatement due to fraud

SAS 99 has identified management override and improper revenue recognition as financial statement fraud risks always present.
- Assess identified controls
 - Consider mitigating controls
 - Consider management over-ride
- Consider nature, timing, extent of response to identified risks
 - Management over-ride
 - Examining journal entries
 - Accounting estimates
 - Unusual transactions

Auditors are required to include the following documentation regarding the risks of material misstatement due to fraud:

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- Discussion among engagement team members regarding the risks of material misstatement due to fraud
- Procedures performed to gather information required to identify and assess fraud risks
- Fraud risk identified
- Response to fraud risks
- Response to risk of management override
- Additional risks or conditions requiring response
- Nature of communications about fraud
- Management representations